

Message Text

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ACTION EA-09

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FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 2067

C O N F I D E N T I A L RANGOON 2701

E.O. 11652: GDS

TAGS: PINS, EAID, BM

SUBJ: IMPLICATIONS OF COUP PLOT FOR IBRD AID CONSULTATIVE
GROUP (BURMA)

SUMMARY: NE WIN'S INITIAL REACTION TO THE ABORTIVE COUP
WILL BE TO BECOME EVEN MORE SUSPICIOUS OF THOSE AROUND HIM
WHO FAVOR LIBERALIZATION OF THE REGIME'S ECONOMIC POLICIES.
THIS WILL PROBABLY FURTHER IMPAIR THE OUTLOOK FOR GENUINE
ECONOMIC REFORMS, SUCH AS HAVE BEEN SOUGHT IN CONNECTION
WITH THE ESTABLISHMENT OF THE WORLD BANK'S AID CONSULTATIVE
GROUP. COMMITTED SUPPORTERS OF THAT IDEA WILL, HOWEVER,
ARGUE THAT AID IS NOW MORE IMPORTANT THAN EVER AS A
MEANS OF BOLSTERING THE POSITION OF THE REGIME'S
"PRAGMATISTS". THIS EMBASSY BELIEVES WE SHOULD CONTINUE
TO ADVOCATE MEANINGFUL REFORMS OF DEMONSTRABLE EFFECTIVE-
NESS AS A PRECONDITION FOR IMPLEMENTATION OF ANY ECONOMIC
AID PROJECTS. END SUMMARY.

2. THE NEXT MEETING OF PROSPECTIVE DONORS IN THE IBRD-
SPONSORED AID CONSULTATIVE GROUP FOR BURMA IS SUPPOSED
TO TAKE PLACE IN TOKYO IN NOVEMBER, WE UNDERSTAND.
AS ORIGINALLY CONCEIVED, THE FORMATION OF THE
CONSULTATIVE GROUP WAS INTENDED TO COINCIDE WITH AND
ACT AS AN INCENTIVE FOR SIGNIFICANT ECONOMIC POLICY
REFORMS ON THE PART OF THE GUB. OVER THE MONTHS,
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WE HAVE SEEN A STEADY EROSION OF THE INTENDED LINKAGE

BETWEEN FORMATION OF THE GROUP AND GUB ECONOMIC POLICY REFORMS. THE GUB'S "REFORM PACKAGE" HAS SHRUNK DOWN TO A FEW CHANGES IN TAX LAWS AND PROCEDURES, SOME OF WHICH HAVE ALREADY BEEN EMASCULATED, AND WHOSE ACTUAL ECONOMIC EFFECT IS PROBLEMATIC AND AT BEST MARGINAL. SOME OF OUR DIPLOMATIC COLLEAGUES WHOSE GOVERNMENTS FAVOR AID TO BURMA HAVE IN EFFECT BEGUN TO ARGUE THAT AID SHOULD BE GRANTED AS A REWARD FOR GOOD INTENTIONS, OR FOR THE POLITICAL EFFECT OF STRENGTHENING THE POSITION OF THOSE "NOW IN THE SADDLE" WHO FAVOR REFORM. (ACTUALLY, NE WIN AND SAN YU, WHO ARE VERY MUCH IN THE SADDLE, OPPOSE REFORM.)

2. IN A DISCUSSION LAST WEEK ABOUT THE RECENTLY-QUASHED "CAPTAINS' COUP PLOT" AGAINST THE NE WIN REGIME, A PLOT MOTIVATED BY EXTREME DISSATISFACTION WITH GUB ECONOMIC POLICIES AND CONDITIONS, BRITISH AMBASSADOR O'BRIEN AND I AGREED THAT THE INITIAL EFFECT ON PRESIDENT NE WIN AND HIS DOCTRINAIRE NUMBER TWO, GENERAL SAN YU, WOULD BE TO MAKE THEM MORE SUSPICIOUS OF PLANNING AND FINANCE MINISTER U LWIN AND OTHER ECONOMIC PRAGMATISTS IN THE REGIME, AND MORE RESISTANT THAN BEFORE TO REAL REFORM. HOWEVER, OUR CONCLUSIONS DIFFERED.

3. AMBASSADOR O'BRIEN REASONED THAT IT IS NOW MORE THAN OEVER IMPORTANT FOR US TO MOVE AHEAD POSITIVELY ON THE AID CONSULTATIVE GROUP, IN ORDER TO "MAKE OUR FRIENDS (U LWIN AND THE PRAGMATISTS) LOOK GOOD". IN ADDITION, O'BRIEN SAID, RECENT SIGNS INDICATED THAT THE BURMESE ECONOMY HAD "BOTTOMED OUT" IN THE WINTER OF '75-76, AND MIGHT BEGIN HEADING UPWARD, PARTICULARLY IF THE REFORMS PROPOSED BY U LWIN HAD THE INTFRDED EFFECT. I TOLD AMBASSADOR O'BRIEN THAT I FOUND IT HARD TO FOLLOW HIS LOGIC. IF THERE HAD BEEN AN ECONOMIC UPTURN (A VERY DEBATABLE QUESTION), IT WAS MORE THE RESULT OF ACTS OF GOD THAN ACTS OF GUB. IN ANY CASE, THE EFFECT SHOULD BE TO DECREASE THE URGENCY OF ECONOMIC "RESCUE" OPERATIONS AND TO INCREASE THE FEASIBILITY OF WAITING UNTIL THE GUB'S ALLEGED REFORMS HAD DEMONSTRATED THEIR EFFICACY

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BEFORE RUSHING IN WITH AID PROJECTS.

4. FURTHER TO THE IMPLICATIONS OF THE COUP PLOT, I REMARKED THAT WHOLE THE INITIAL EFFECT WOULD PROBABLY BE TO MAKE NE WIN AND SAN YU EVEN MORE RESISTANT TO REFORM THAN BEFORE, OVER THE LONGER RUN IT MIGHT HAVE THE OPPOSITE EFFECT. THE COUP PLOT CONSTITUTED DIRECT EVIDENCE THAT THE REGIME'S DISASTROUS ECONOMIC

POLICIES WERE ERODING THE VERY FOUNDATION (I.E., MILITARY MORALE AND DISCIPLINE) OF THE REGIME. PERHAPS THIS MESSAGE WOULD EVENTUALL PENETRATE THE REGIME'S IDEOLOGICAL BLINDERS AND CAUSE CANGES IN THE REGIME'S POLICIES UNTIL SUCH CHANGES OCCURRED, HOWEVER, I WAS SKEPTICAL ABOUT THE UTILITY OF MAJOR NEW ECONOMIC ASSISTANCE PROGRAMS.

5. THE EMBASSY WOULD APPRECIATE APPROPRIATE GUIDANCE IF THE DEPARTMENT'S VIEWS DIFFER SIGNIFICANTLY FROM OUR OWN. WE WOULD ALSO BE GRATEFUL FOR WHATEVER INFORMATION THE DEPARTMENT CAN PROVIDE ABOUT PLANNING AND ARRANGEMENTS FOR THE PROPOSED CONSULTATIVE GOUP MEETING IN TOKYO IN NOVEMBER. WHAT, FOR INSTANCE, IS THE STATUS OF THE NEW REPORT ON THE BURMESE ECONOMY WHICH IBRD WAS SAID TO BE PREPARING TO REPLACE THE EARLIER REPORT THAT WAS JUDGED TOO PESSIMISTIC?
OSBORN

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